

A STUDY ON CONCEPTUAL FRAMEWORK OF HUMAN RESOURCE ACCOUNTING IN INDIA

M.R.PRAJAPATI, DILIP R.VAHONIYA, Y.A.LAD & RITAMBHARASINGH

Assistant Professor International Agribusiness Management Institute, Anand Agricultural University, Anand, Gujarat, India

ABSTRACT

Human Resource Accounting as a modern concept in the field of accounting. It is a process of identifying and measuring data about human resources. Measurement of the investment in human resources will help to the organization to evaluate the expenses made in human resource over a period of time. For the betterment of the organizations, it is necessary to evaluate the worth of human resources in a systematic manner and record the information related to them in the financial statement of the organization to communicate their worth time to time to the users of the financial statement. From the information of human resource accounting management can take the proper decision about their future decision endeavor. In this paper attempt has been made to include different conceptual aspect of human resources accounting which is focus on overall progress and development in the field of Human resource accounting.

KEYWORDS: Human Resource, Accounting, Cost, Human value, Trends and Issues

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INTRODUCTION

In accounting various research and study conducted by different expert, a new branch of accounting which is known as human resource accounting has come into being. This branch of accounting is depend on that the traditional practice of treating all expenditure on human capital formation as an immediate charge against the revenue of the period is not consistent with the term accorded to comparable outlays in physical assets. As a matter of fact, the cost incurred on any assets should be capitalized when it is incurred in order to yield future benefits measurable in monetary terms.

Human resource accounting is the art of valuing, recording and presenting systematically the worth of human resource in the books of account of an organization. The employee's bargaining power and performance are also affected by this. But, in spite of having such importance, study of human resource of an organization had not been given required attention by management thinkers for years. Under the constraints the financial statements are prepared pursuant to the Company Law in India

Human resource accounting is include various points which are like. Human resource valuation, recording the valuation in the different books of account and transparency and disclosure of the information in the financial statements of the organization.

Development of the Concept of Human Resource Accounting

The concept of considering human beings as an asset is an old phenomenon. One may recall, in this connection, the importance which emperor Akbar gave to the nine jewels. The history of our freedom movement

will not be complete without mentioning the names of Mahatama Gandhi, Sardar Vallabh Bhai Patel, Shri Jawahar Lal Nehru and several other freedom fighters. However, no effort was made to assign any monetary value to such individuals in the balance sheet of the nation or of the organization. The attempt to value the human beings in monetary terms was made by Sir William Petty as early as 1691. Further efforts, in this connection, were made by William Far in 1853 and Earnest Engle in 1883.

The real work on the subject started from 1960, when behavioural scientists vehemently criticized the conventional accounting practice of not valuing the economists all over the world became conscious of the fact that appropriate methodology and procedures have to be developed for finding the cost and value of the employee to the organization. Over a period of three decades, a number of experts note able among them are Shultz(1960), William C.Pyle(1967), Flam Holtz(1971 to 1975), Morese (1973), Lav and Schwartz(1971), Jaggi and Lav (1974), Kenneth Sinclare (1978), etc.

American Accounting Association (1980) has defined human resource accounting as “Human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties”

Human resource accounting is primarily involved in measuring the various aspects related to human assets. Its basic purpose is to facilitate the effective management of human resources by providing information to acquire, develop, retain, utilize and evaluate human resources.

Objectives of Human Resource Accounting

The objectives of human resource accounting which are as follow

- In the decision making process about employment, allocation and utilization of such resources properly should be care. Better decision about people on improved information system can be taken.
- Developing new measures of effective manpower utilization.
- Better human resource planning, enabling long-term opportunity for planning and budgeting.
- In taking decision regarding promotion, transfer, traning, retirement and retrenchment of such resources.
- For fixing right person for the right job.
- In evaluating the expenditure, if any, incurred by the organization in giving further training and to evaluate the return on such investment in human resource.
- To motivate individual human being in the organization to increase his worth by training.
- To know whether the organization has excessive human resource in terms of money's worth and to help the organization to take suitable action.
- To attract good competent and efficient personnel to work for the organization.
- In planning physical resources vis-à-vis human resource by giving valuable information.

Need and Problems of Human Resource Accounting

The need of human resource accounting arose primarily as a result of the growing concern for human relations management in industry. Behavioral scientists concerned with the management of organization pointed out that the failure of accountants to value human resources was a serious handicap for effective management.

A business manager has to use resources carefully to achieve immediate and long term goals for the organization. This necessitates valuable information about resources. The human beings constitute an important asset for an organization. Without people in the organization other resources physical and financial cannot be effectively used. In conventional accounting not much information is available about human resource.

The level of income shown in the conventional statements in profit and loss account do not accurately reflect the level of business performance. Conventional treatment of investments on human resource may lead to the erosion of investors' interest through management decision which is harmful for the long run success of an organization and to the investor equity.

Traditional accounting involves treatment of human capital and non-human capital differently, the recorded value of other assets is indicated as non-human capital. There is no such record of human assets corresponding to the human capital of the organization although the productivity and profitability depend largely on contribution by human assets. To make it more explicit, two firms engaged in the same business line, use identical physical assets under similar market conditions, may have different end results in terms of their profitability and growth due to differences in their human assets. It is, therefore, not possible to assess the total value of the firm, since the value of human capital is not taken into consideration while assessing the total valuation of the firm's assets.

The impact of management decision on human assets of the firm cannot be clearly perceived if the value of human resources is not reported in the profit and loss account and balance sheet.

Methods of Human Resource Accounting

Historical Cost Method

This method was developed by Brummet and W.C. Pyle. Under this method capital expenditure on human assets are amortized over an expected life of human assets. When employee is leaving early than unrecovered will be treated loss and charge to P&L A/c. However it is difficult to find out the effective life of human assets and fix the rate at which cost be amortized.

Replacement Cost Method

This method was developed by R. Likert and E.G. Flamholtz. Under this method all the cost of replacement are considered when an employee is replaced (i.e, recruiting, training, placing etc.) with a person of equal ability. This method suggests a current value of the human assets. It is difficult to determine the replacement cost of an employee and replacement cost does not reflect the competence of an employee.

Opportunity Cost Method

This method was developed by Hekimian and Jones. Under his method opportunity cost's are considered as an asset value when the target of an alternative use. Only scarce human resources would have value at any particular point of

time. Opportunity cost is calculated on the basis of efforts made by several organizational units, profit centers or departments.

Competitive Bid Price Method

It is developed by Hekimian and Jones. Under this method human resources are valued on the bidding cost. Only scarce work force or employees are considered under this method. The value of human assets is determined by capitalizing the total of bid prices of all the scarce employees within the company

Standard Cost Method

This method was developed by David Watson. Under this method standard cost of recruitment training and professional Growth for each grade or category of Employees are fixed and compared with actual after recruitment and replacement. Variance if any is charged to profit & loss account.

Current Purchasing Power Method

In this approach investment in human assets or workforce is converted into the current purchasing power of money with help of index number. It is difficult to find suitable index in the changing scenario therefore, this method may not be representative of actual value of human resources.

Earning Approach

Under the earning approach various method of human resources valuation has been developed on the basis of present value by the different authors: (i) Present value of future Earning Model developed by Lav & Schewartz in 1977. (ii) Net benefit model developed by Morse and Ogan in 1973. (iii) Reward Valuation Method by E.Flamhotz in 1971. (iv) Certainty Equivalent Net Benefit Method by Pekinogan in 1976. (v) Aggregate Payment method by S.Chakraborty in 1976. (vi) Total cost concept by N.Das Gupta in 1978. (vii) Group basis valuation by Jaggi and Lau. Present value of human resource can be calculated as under:

$$PV(r): \underline{RC+FC+DC+JC+P (Le+Og)}$$

ESP

$PV(r)$ = Present value of human asset. RC = Recruitment Cost.

FC = Familiarization Cost.

DC = Development Cost

JC = Job Cost

ESP = Expected Service Period

$P (Le+Og)$ = Probability for loss of efficiency of human resources and for outgoing of the employees.

Scenario of Human Resources Accounting in India

The Institute of chartered accountants of India has not issued an accounting standard for the measurement and reporting of cost and value of human resources of an organization. So far as the statutory requirement is concern, the Indian company Act 1956 does not require the furnishing of any significant information about human resources in the balance sheet or final account of the companies. According to the money measurement concept of accounting only those transactions can be recorded under double entry accounting system which can be expressed in monetary term. Human attributes (i.e. honesty, sincerity, loyalty, wisdom, skill, attitude etc.) cannot be express in monetary term, therefore, there

is no standard method which can be followed to capitalize the investment on human assets. In recent years some public undertaking has started to disclose information about their work force along with the financial statement. Finally every organization should be understood the value of human force and same should be recognized in accounting books

Human Resource Accounting Practicing Companies in India

Even though, many benefits have contributed by HRA, yet its development and application in different industries has not been encouraging. Because Indian companies act 1956, does not provide any scope for showing any information about human resources in financial statement. Due to the development of business and industries, some of the Indian companies, both public and private, value their human resources and report this information in their annual report. The companies, who are presently reporting human assets valuation, include: 1. Bharat heavy Electrical Ltd (BHEL). 2. Steel Authority of India Ltd (SAIL). 3. Oil and Natural Gas Commissioning (ONGC). 4. Oil India Ltd 5. Project and Equipment Corporation of India. (PEC). 6. Engineers India limited 7. Mineral and Metal trading Corporation of India. (MMTC). 8. Electrical India Ltd. 9. Hindustan Shipyard Ltd. 10. Cement corporation of India. (CCI). 11. Infosys Technologies Ltd. 12. Tata Engineering and Locomotive Works 13. Southern Petrochemicals Industries Corporation Ltd SPIC). 14. Associated Cement Company Ltd ACC). 15. National Thermal Power Corporation Ltd (NTPC)

Major Issues Concern to Human Resource Accounting in India

There certain major issues relating to implementation of human resources accounting arises because of it try to attempt measure and evaluate intangible. Which are as follow.

- Charging the expenditure incurred on recruitment, training and development of human resources to current period's profit and loss account, profit during that period are understated or losses overstated.
- By not capitalizing expenses relating to human resource, even when they are substantial the assets are concealed and net worth is understated to that extent.
- Writing of goodwill when profits are rising, accountants create secret reserves.
- The historical cost approach to develop measures of human resource accounting uses an amortization rate, which provides the figure of amortization to be charge to the profit and loss account every year. But it is very difficult to develop norms in this regard. Physically and mentally, individuals grow and deteriorate at different rate. Some grow more capable as a result of their work experience, other do not. Given the difficulty of predicting such changes, it is even more difficult to develop a means of writing off and individual's value. So far, precise measures for amortization of human assets have not been developed.
- Though physical assets are fully recorded under the existing system, human assets are ignored in the internal as well as external reports. This lead to faulty evaluation and decisions.
- By not valuing human resources, on the principles of accounting depreciation or appreciation of human assets is ignored. There had been any attempt to systematically measure and report the depreciation or appreciation of human resource, the quality of management would certainly improve.

CONCLUSIONS

Now a day's organization should be consider employees as and assets, through them organization will progress.

Every organisation is work for the betterment of their stakeholders and that can be achieved through their human resource. Human resource accounting is developing concept in the field of accounting. Human resource accounting is present the new way of thinking and consider human as an assets. It is providing information to the organization about what received from investment made in human resource. Human is different from other resource so how organization is use and how treat is most important. It has certain issues, challenges and problems in implementation of human resource accounting which can be resolve through more research in this field. So that human resource value can be put in more appropriate way in the financial statement.

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